



KALUZA

Network Charging Reform

REA Feb 20

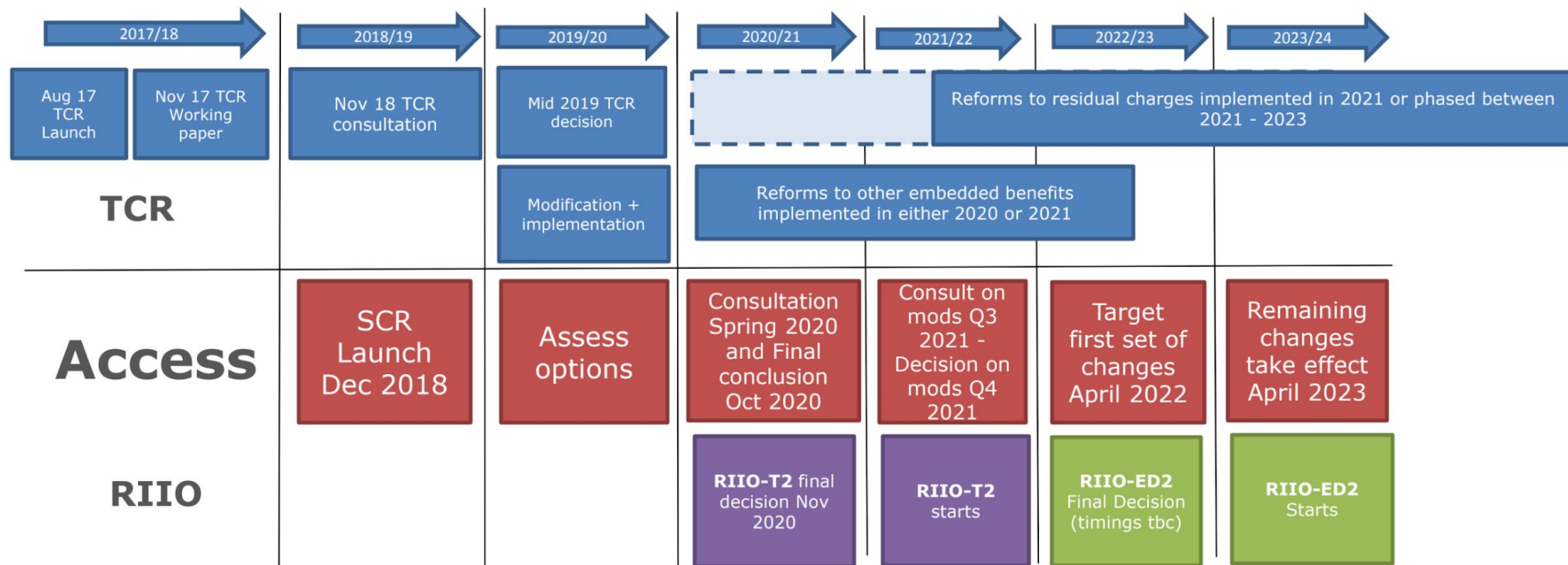
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Reminder: How did we get here?



The TCR (Targeted Charging Review) was launched in August 2017 to specifically look at distortions caused by avoided “residual charges” being recovered from users who couldn’t avoid them.

The Access and Forward Looking Charges SCR was launched in December 2018 to consider more broadly whether network charging was fit for future use

Nb dates above are out of date

Where are we now? (TCR)



The TCR final decision was published in November 2019 and concluded:

- Residual charges are the “top-up” to allowed revenue after the “forward-looking” (or behavioural response signal) charges have been levied
- These should not be avoided, and are therefore to be charged as **fixed** charges, on **final demand** only
- Embedded benefits should be reformed:
 - The Transmission Generation Residual should be set to zero
 - BSUOS charges should be on **gross** demand, not **net** (i.e. no BSUOS embedded benefit)
 - Whether embedded generators should **pay** BSUOS costs will be explored further in a “Balancing Services Second Taskforce”

The TCR direction has now been handed over to industry to make the required modifications to the codes. This has highlighted some key issues:

- **Banding:** Setting the fixed charges is nuanced, and will have a material (£000ks) impact depending on which “band” you’re in.
- **Flooring:** There are currently rules that set the floor or ceiling of charges at zero (i.e. no negative charges for demand or positive charges for generation). Applying this to the new forward looking charge will distort the residual. This is an issue arising from misaligned implementation between the TCR and SCR.
- **Site definitions:** How will generation and/or storage be properly identified and accounted for in banding and charge-setting, and then billed?
- **Timing and co-ordination:** There is a lot of concern across NGESO, DNOs and suppliers about the implementation timescales. It is likely we end up with a “pragmatic” solution that is a short-term fix until the SCR and MWHHS is implemented. In addition, SCR work will likely start overlapping towards the end of the year.

Don't forget about the TCR - there is enough ambiguity in the direction that material decisions could be made through the course of implementation. Additionally, timescales are incredibly tight - “pragmatism” could have distortive effects

Where are we now? (SCR)



While the TCR dealt with “residual charges”, the forward-looking element is considered under the SCR and will include how embedded generation and storage should be incentivised to invest and dispatch. Ofgem are currently shortlisting the options across their 4 workstreams. The options will then undergo impact assessment using a purpose-built model by CEPA-TNEI, before a consultation on their minded-to decision mid-2020

Access:

- Firmness: Physical and user-experience in, financial firmness out
- Time-profiled: both static and dynamic options in
- Shared: Locally shared access in, wider sharing out
- Small users: Question over whether small users need an access right
- Bespoke vs standard: Proposing to only progress a hybrid approach

DUOS cost models:

- Short run marginal cost (i.e. congestion pricing) has been ruled out
- Users paying charges for either upstream or downstream flows they are contributing to, with no opposing credits has been ruled out, with users paying charges or credits for upstream costs only the remaining option
- Granularity: Primary substation

Connection boundary:

- Only considering shallowing the connection boundary (i.e. recovering more network reinforcement costs through network charging rather than the connection fee).

DUOS charge design:

- Ruled out: Actual capacity, real time pricing and critical peak rebates

TNUOS:

- Ex-ante critical peak has been ruled out. All options include likely tnuos charges to embedded generation (depending on location)

Related workstreams



- RIIO - 2
 - Key for defining the priorities for the networks from 2023. Also crucial for setting the tone for the transition. This will be the first ESO price control period, and there will need to be some key decisions made on the role of the DSO in order to effectively set the RIIO framework for the DNOs.
- “DSO and wholesale markets”
 - Ofgem have established a team specifically looking at the DSO transition and interaction with wholesale markets.
- Government’s energy white paper
 - Expected in March.
- Treasury’s review of routes to Net Zero
 - Over the summer
- COP 26 (maybe)

Key points



- Ofgem are missing policy direction from government/BEIS, particularly on the route to Net Zero. This risks (a) the impact assessment insufficiently exploring routes to Net Zero (currently will be mainly based on the FES net zero sensitivity) and (b) difficulty in prioritising Net Zero above consumer benefit (i.e. as in the TCR decision). The decarbonisation action plan from Ofgem is a useful first step, but we need much more in the way of detailed, strategic plans from both BEIS and Ofgem over the 5 to 10 year horizon on how we are going to meet our goals so that distributed generation, storage and flexibility can be properly valued.
- Flexibility is key to enabling greater generation penetration without the proliferation of managed networks or curtailment. It is crucial that Ofgem recognise this and ensure the appropriate network charges and flexibility markets are implemented across the various reforms. Otherwise, we will have siloed decision making that creates barriers or distorts flex markets resulting in a less green and more expensive network.
- DNO-led reform risks the persistence of traditional approaches to network management and reinforcement that are insufficient to meet our Net Zero targets or capitalise on the opportunities that decarbonisation, decentralisation and digitisation offer. We need robust incentives and/or requirements for the use of flexibility in order to avoid the transition becoming a proliferation of traditional reinforcement at the expense of the consumer.